

**Before the  
FEDERAL COMMUNICATIONS COMMISSION  
Washington, DC 20554**

In the Matter of	)	
	)	
Federal-State Joint Board on Universal	)	CC Docket No. 96-
45		
Service Seeks Comment on Proposals	)	
to Modify the Commission's Rules	)	
Relating to High-Cost Universal Service	)	
Support	)	

**REPLY COMMENTS OF GVNW CONSULTING, INC.**

GVNW Consulting, Inc.  
Jeffrey H. Smith  
VP, Western Region Division Manager  
Officer  
Chairman of the Board  
P.O. Box 2330  
80936  
Tualatin, OR 97062

Robert C. Schoonmaker  
President/Chief Executive  
  
PO Box 25969  
Colorado Springs, CO

Kenneth T. Burchett  
VP, Western Region

## TABLE OF CONTENTS

### *Executive Summary*

3

### INTRODUCTION

4

### THE BLOCK GRANT CONCEPT IS PREMATURE

5

### BLOCK GRANTS DO NOT SUPPORT BROADBAND GOALS

6

### IRONICALLY, BOTH ADVOCATES OF RURAL AREAS AS WELL AS OPPONENTS FASHION ARGUMENTS THAT SUPPORT THE CONCEPT THAT RURAL IS STILL DIFFERENT

7

### ***Executive Summary***

There are three important observations that may be offered after a thorough review of the comments filed in this proceeding. First, the block grant proposals offered in the four plans should be considered premature. In order for RLECs to continue to deploy rural infrastructure in high cost areas, reliable access to support funding must continue throughout the investment cycle. The arbitrary nature of even a well-intended block grant program could severely retard investment in rural areas as lenders will not provide capital.

Second, block grant proposals do not support national broadband goals. The national broadband targets that are geared to 2007 achievement dates, supported by the current Administration, do not appear to be supported by any of the block grant proposals.

Third, it is ironic to note that both the advocates of rural areas, as well as opponents when their motives are scrutinized, fashion arguments that support the concept that rural is different. The various block grant proposals will have the effect of killing universal service in some states as political pressure and lobbying by the large carriers will result in the rural carrier

areas being left with insufficient funds for construction of quality rural networks. And, the reality is that funds paid to non-rural companies for their high-cost rural service areas, although intended for the benefit of the rural Americans, are not easily tracked to those areas. Rural carriers face diverse circumstances and ‘one size does not fit all’ in considering universal service support mechanisms that are appropriate for rural carriers. Therefore, the Joint Board should recommend that separate rural and non-rural high-cost support mechanisms be maintained.

## **INTRODUCTION AND BACKGROUND**

GVNW Consulting, Inc. (GVNW) is a management consulting firm that provides a wide variety of consulting services, including regulatory and advocacy support on issues such as universal service, advanced services, and access charge reform for communications carriers in rural America. In August 2004, the Joint Board requested comments on issues referred by the Commission regarding universal service for rural carriers and competitive eligible telecommunications carriers. Recently, several individual Joint Board members and staff members have proposed four different solutions addressing these above-referenced issues. The purpose of these reply comments is to respond to the Public Notice (FCC 05J-1) released by the Commission on August 17, 2005, requesting comments on the four plans<sup>1</sup>.

---

<sup>1</sup> These four plans include: (1) the “State Allocation Mechanism (SAM)” proposed by Joint Board member Ray Baum; (2) the “Three Stage Package (TSP) for Universal Service Reform”

We have participated actively in prior universal service proceedings and applaud the members' and staffs' current efforts to address the myriad of challenges facing universal service programs today. High-cost universal service support is not a subsidy program for end-user customers. It is a cost recovery program designed to promote infrastructure investment in areas where it would not otherwise be feasible for carriers to provide quality services at rates that are affordable and reasonably comparable to urban areas.

We respectfully submit these reply comments for the Joint Board and Commission's consideration.

## **THE BLOCK GRANT CONCEPT IS PREMATURE**

In the comment round, several parties suggested that the block grant proposals offered in the four plans should be considered premature.

As stated in its filing at page 2, AT&T suggested that: *“Consideration of block-grant programs, however, is premature. . . ., the plans that are currently before the Joint Board simply do not contain enough detail for interested parties to make an assessment of the full, concrete consequences of those plans.”*

---

proposed by Joint Board member Billy Jack Gregg; (3) the “Holistically Integrated Package” proposed by Commissioner Robert Nelson; and (4) the “Universal Service Endpoint Reform Plan (USERP)” proposed by Joel Shifman, Peter Bluhm, and Jeff Pursley.

Any plan predicated on a “block grant” type of distribution method fails to meet the tenets of TA 96, in part due to an absence of any affirmative evidence that Congress intended such a fundamental shift to a state block grant distribution mechanism.

The interplay with other pending Commission proceedings also serves to highlight the prematurity of the various block grant proposals. Several parties point to the fact that the open proceeding in the arena of intercarrier compensation has the potential to shift costs currently recovered by carriers from access charges and reciprocal compensation to some form of universal service support mechanism. In some cases, significant shifts are proposed. As stated by the Nebraska Rural Independent Companies at page 14 of their filing:

*Therefore, the Joint Board cannot judge the impact of the universal service proposals currently before it without first knowing the impact of the changes in intercarrier compensation that the Commission may consider. The Commission also has an open proceeding addressing potential changes to the universal service contribution mechanism. Without knowing the outcome of this proceeding, it will be difficult for the Joint Board to identify the amount of universal service funding that will be available. (footnote omitted)*

## **BLOCK GRANTS DO NOT SUPPORT NATIONAL BROADBAND GOALS**

The national broadband targets that are geared to 2007 achievement dates, supported by the current Administration, do not appear to be supported by any of the block grant proposals. Recent comments by

Commission Chairman Martin (Wall Street Journal, July 7, 2005, page A12)

indicated Commission concurrence with these goals in stating that deployment of broadband is “my highest priority as the new chairman of the FCC.”

In fact, some would argue that little progress has been made since the Rural Task Force “no barriers to advanced services” recommendation<sup>2</sup>. Several parties have illustrated the nature of the challenge in this regard. As stated by ACS at page 19 of their comment filing:

*At a time when national policy leaders are calling for massive new investment to support universal broadband availability in rural America, the Commission’s rules are creating real year-over-year reductions in the limited support rural carriers have available to fund these upgrades.*

Implementing a block grant approach to distributing federal universal service funding allows state commissions such a large degree of discretion so as to exacerbate this situation. In order for RLECs to continue to deploy rural infrastructure in high cost areas, reliable access to support funding must continue throughout the investment cycle. The arbitrary nature of even a well-intended block grant program could severely retard broadband investment in rural areas.

---

<sup>2</sup> This portion of the RTF recommendation included principles that stated in part that “carriers should be encouraged by regulatory measures to remove infrastructure barriers relating to access to advanced services” and “the fund should be sized so that investment in rural infrastructure will be permitted to grow.” (RTF Recommendation at pages 21-22)

**IRONICALLY, BOTH ADVOCATES FOR RURAL AREAS AS WELL AS  
OPPONENTS FASHION ARGUMENTS THAT SUPPORT THE CONCEPT  
THAT RURAL IS STILL DIFFERENT**

As stated in our comment filing, the Commission itself has recognized that the costs of rural carriers are higher than non-rural carriers. Several commenting parties provided additional support and illustrations.

Perhaps the most insightful statement is provided by Sandwich Isles, TelAlaska, and Yukon Telephone (STYu) at page 5 of its filing, stating in part that:

*Non-rural and rural carriers “competing” for limited federal USF within a state is a Solomon-like solution to the problem of funding universal service. Unfortunately, splitting the universal service baby will have the effect of killing universal service in some states. Undoubtedly, the rural areas will be left with insufficient funds for construction of quality rural networks. And, the reality is that funds paid to non-rural companies for their high-cost rural service areas, although intended for the benefit of the rural Americans residing in those areas, cannot be easily tracked to those areas.*

Even the attempts to liberally interpret Bureau of Labor Statistics data by Qwest (page 19) serve to support the rural is different argument when one analyzes Qwest’s underlying motivation. Such insight into Qwest’s motivation is provided in the comments of the Washington Independent Telephone Association, Montana Telephone Association, and Monroe Telephone Company, who opine at pages 2-3 of their filing that:

*For example, WITA is aware that Qwest Corporation is visiting the state commissions in each of the fourteen states in which it operates as an ILEC advocating its support for a state block grant program. Why? Because Qwest sees an opportunity to gain an additional revenue stream. That revenue stream can come into existence only if the*



*money is taken away from the investment in the rural areas<sup>3</sup> served by rural companies or by substantially increasing the size of the fund. (no footnote in original citation)*

In addition, while the comments of the Public Utility Commission of Oregon (Oregon Commission) at page 5 referencing whether the “wrong sign is on the side of the telephone company’s building” draw attention to some of the challenges faced by Qwest, the Oregon Commission conclusions in this portion of their filing appears to ignore virtually the entire body of work of the Rural Task Force. OPASTCO properly counters the Oregon Commission at page 14 of its filing, stating in part that:

*The Joint Board and the FCC have consistently recognized that “. . . rural carriers face diverse circumstances and that ‘one size does not fit all’ in considering universal service support mechanisms that are appropriate for rural carriers. Therefore, the Joint Board should recommend that separate rural and non-rural high-cost support mechanisms be maintained . . . (footnote omitted)*

Further substantiation of the rural difference is offered by an Alaska carrier. In its filing at page 6, ACS described the rural portion of its service territory in the following excerpt: “*In contrast, the remainder of the state is sparsely inhabited, frequently roadless, and often accessible only by boat or plane. The climate is severe. The terrain is rugged. The communities are small and often geographically separated by hundreds of miles.*”

---

<sup>3</sup> In several of these states, Qwest (f/k/a US West) previously visited these same commissions in recent years to explain their lack of investment and resulting problems with service quality standards.

The overarching principle that the Joint Board and Commission must adhere to is that rate-of-return carriers are entitled, as a matter of law, to a FULL recovery of their costs in providing regulated services. One of the key components of this cost recovery is the revenue received from federal universal service fund (USF) support. Federal USF is an important cost recovery mechanism for rural carriers.

Respectfully submitted,

*electronically submitted through ECFS on 10/31/05*

GVNW Consulting, Inc.

Jeffrey H. Smith

Chairman of the Board

Vice-President, Western Region Division Manager

PO Box 2330

Tualatin, OR 97062

Phone: 503.612.4409

email: jsmith@gvnw.com